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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 000539

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TAGS: [ECON](#) [EPET](#) [KCOR](#) [EIND](#) [IZ](#)
SUBJECT: PRT TIKRIT: BAYJI OIL PRODUCTION GRINDING TO A NEW
HALT

REF: A. A. 06 BAGHDAD 4427
[1](#)B. B. 06 BAGHDAD 4534
[1](#)C. C. BAGHDAD 344

Classified By: Stephanie Miley, PRT Deputy Team Leader, for reasons 1.5
(b) and (d).

[1](#)1. (U) This is a PRT Tikrit, Salah ad Din cable.

[1](#)2. (C) SUMMARY. During interviews conducted on February 6-7, officials at the Bayji oil refinery discussed continuing production challenges which greatly hamper production and threaten to completely shut down the facility within several days. There are a many issues facing the refinery, however, the continued inability to adequately distribute the byproduct - heavy fuel oil (HFO) - is the most acute and may cause a another closure shortly without concerted action by the GOI. A new shutdown would likely exacerbate refined fuel shortages throughout central and northern Iraq - where black market prices continue to rise to new highs) and cause an added blow to Iraq's struggling economy. Absent effective and immediate action by the GOI to ensure HFO distribution and secure necessary refinery inputs, such as power and crude oil, refinery production stoppages at Bayji are likely to continue, undercutting strategic policies by the GOI and USG to stimulate overall employment and achieve political and social stabilization in Iraq in early 2007. END SUMMARY.

Lagging Production Drives Black Market Fuel Prices Higher

[1](#)3. (C) The Bayji oil refinery is plagued by a number of chronic problems which normally preclude the facility from reaching even 30 percent of its capacity. When asked to list the refinery's problems in priority order, Deputy Chief of Production Abu Khassem named four: the glut of heavy fuel oil, a by-product whose lack of storage capacity prevents further refining but which does have market-value; a shortage of trained engineers; erratic supplies of crude oil; and periodic power failures due to frequent blackouts of the nearby power station (NOTE: There was a new blackout on the night of February 10, ending production until February 12 END NOTE). Khassem stressed that, of those challenges, the HFO excess supply was the most acute. This problem is not new; the refinery has suffered from erratic HFO distribution for several months (reftel A). Many of the fundamental impediments to effective delivery of the HFO still remain, including abysmal highway security, rampant AIF and IA extortion, and an unresolved import/customs situation with Syria (reftel B).

[1](#)4. (C) The sporadic production at Bayji drove black market prices) the only source of refined fuel for most Iraqis -

steadily higher in central and northern Iraq throughout the winter. Due to lagging production as well as other factors: massive fuel theft (according to nearly every refinery and provincial official interviewed, atmospheric reports, and other evidence supplied by Bayji contacts such as OPF), as well as simple mismanagement, a severe shortage of benzene, diesel, kerosene, and liquid petroleum gas (LPG) is causing massive hardship for nearly everyone; the shortages are all-consuming (reftel C).

15. (C) The following data obtained from atmospheric reports highlights a steady black market fuel price increase on the streets of Salah ad Din:

Benzene (per liter)

-- November 26 - \$.41
-- December 17 - \$.48
-- January 22 - \$.64
-- February 11 - \$.76

Diesel (per liter)

-- November 26 - \$.38
-- December 17 - \$.38
-- January 22 - \$.57
-- February 11 - \$.68

Liquid Petroleum Gas (20 liters can)

-- November 26 - \$5.38
-- December 17 - \$12.69
-- January 22 - \$18.90
-- February 11 - \$22.73

Kerosene (per liter)

-- November 26 - \$.40

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-- December 17 - \$.45
-- January 22 - \$.76
-- February 11 - \$.94

Swimming in HFO

16. (C) Khassem explained that the refinery has a total HFO storage capacity of 150,000 cubic meters, of which they were using approximately 102,000 cubic meters as of the day of the interview, February 6. Depending upon current levels of production, the refinery normally produces approximately 3,000 to 7,000 cubic meters of HFO per day) guaranteeing plant closure within a short time if HFO distribution was not resumed. Although a power shortage was the proximate cause of the refinery shutdown on February 10, HFO oversupply remains a critical long-term problem. According to data submitted to IPAQ by internal staff at Bayji, benzene production came to a halt on February 10, then resumed at extremely limited production on February 12.

--Feb. 7) 4611 cubic meters
--Feb. 8) 5079 cubic meters
--Feb. 9) 4334 cubic meters
--Feb. 10) 1331 cubic meters
--Feb. 11) 0 cubic meters
--Feb. 12) 0 cubic meters
--Feb. 13) 1759 cubic meters

17. (C) In January, the MoO awarded three Iraqi trucking companies) Erehad Al Nakleen (Ramadi), Al Jowal (Mosul), and Anwar Al Motakel (Bayji)) contracts to transport HFO to Syria where it can be further refined or utilized as fuel for power plants. Although daily shipping manifests arrive from the MoO in Baghdad, they are routinely ignored; in practice tankers have not appeared at the HFO distribution gates since January 29. During a February 7 interview, Anwar Al Motakel manager Abo Ahmed stated that the company is still refusing to send its drivers to the refinery for two reasons: the

appalling highway security (especially in Anbar province) and continuing import documentation problems at the Syrian border. Ahmed told IPAO that while his drivers were ready, the GOI has not delivered on promises of increased highway security or provided proper import documentation to allow entry into Syria. (NOTE: Confidentially, the security officer with the 12th Strategic Infrastructure Battalion (SIB), LTC Khatab, told IPAO on February 7 that his sources reported Ahmed's fears were not only general but also specific. According to Khatab, local AQIZ elements actually threatened Ahmed) warning that any tanker drivers sent out would be killed and their trucks blown to pieces. END NOTE.)

¶8. (C) Although Chief of Production Abdel Khader claimed on November 19 that 500 tankers would be needed for HFO transport in order to sustain full production (reftel A), the present distribution infrastructure does not appear to be capable of supporting even 50 percent of this total. Usama Sabah, HFO Pump Manager, told IPAO on February 6 that of his eight pumps only four or five regularly functioned, resulting in a theoretical maximum of 150 tankers being fueled per day. Sabah also admitted that employee motivation was an issue, since someone employed at the refinery was often "hired for life."

Shia Gone

¶9. (C) Another less obvious but also critical impediment to sustained refinery production in Bayji is the dearth of trained petroleum and maintenance engineers. During an interview conducted on January 3, Assistant Manager of the North Refinery (of the three in Bayji) North, Salah ad Din 1, and Salah ad Din 2) the North is the only refinery still in operation) Salum Jassim said that half of his employees regularly do not show for work. Jassim explained that many of his engineers are Shia; since the execution of Saddam Hussein execution, most do not feel safe in Bayji, which is located in the heart of Sunni Iraq.

Comment

¶10. (C) COMMENT. The present oversupply of HFO coupled continued electrical power supply disruptions means that future, frequent shutdowns in production at the Bayji oil refinery are likely. This in turn ensures that the scarcity

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of refined fuel in SaD (and most of central-north Iraq) will remain critical, perpetuating a thriving black market. Evidence of the all-consuming fuel shortages can be seen everywhere: the kilometer-long lines in front of the government fuel stations; the heated debates within the Provincial Council; and, the frustration expressed by residents on the street. Stimulating discontent, the fuel shortages remain a critical obstacle precluding legitimacy of the provincial and national governments in the eyes of many of the province's residents.

¶11. (C) Concerted action) rarely seen from the GOI - will probably be necessary to improve the dire situation. This action could take many forms: HFO convoys escorted by the IA, coordination with provincial governments to help provide additional security (including for the Shia engineers), and/or placement of three or four of the "Mother-of-All-Generators" (MOAGs) at the refinery, giant generators which not only could provide a consistent source of electricity but also burn HFO, thereby removing a significant amount of the oversupply.

¶12. (C) The mere stationing of SIB units at the front and distribution gates will probably not be sufficient; this approach is being tried currently to no avail (septel).

While the new security plan being led by the IA holds promise, the GOI and MoO in Baghdad will need to recognize the situation for what it is) an emergency which not only threatens economic development but also their own legitimacy) and continue to act accordingly to make certain improved distribution of supplies of refined fuel to their constituencies.

¶13. (C) On February 14, the new Refinery Director, Ali Obeydi, briefed PRT members regarding new initiatives - such as the repair of the long-defunct hydro cracker (thereby disposing of much of the excess HFO and simultaneously increasing efficiency) and the acquisition of a dedicated electric power supply. These would be giant steps that, if realized, would raise the level of production significantly. Septel to follow. END COMMENT.

¶14. (U) PRT Tikrit thanks the soldiers of the 1st Battalion, 505th Paratroop Regiment, 82nd Airborne Division for their invaluable contributions and support that make this reporting possible.

¶15. (U) For additional reporting from PRT Tikrit, Salah ad Din, please see our SIPRNET reporting blog:
<http://www.intelink.sgov.gov/wiki/Tikrit>.
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